BRITISH COLUMBIA

BC STATS

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Ministry of Management Services

Infoline

Contact: bcstats.infoline@gov.bc.ca *Issue: 05-15* *April 15, 2005*

- **BC exports increase 0.7% in February**
- **Manufacturing shipments rebound**
- **Cost of new housing continue to rise in Vancouver and Victoria**

The Economy

- **Exports of BC products rose for the second consecutive month in February (+0.7%, *seasonally adjusted*), boosted by forest (+1.9%) and industrial & consumer (+2.7%) products.** Exports of agriculture & fish (-2.9%) and machinery, equipment & automotive (-3.3%) products slipped in February. Energy products also edged down (-0.5%), following an 11.7% jump in January.

  The value of exports destined for US markets increased 3.0% in February, as energy (+6.0%) and forest (+3.5%) products led the growth. With the exception of agriculture and fish products (-1.9%), exports of all other commodities to the US fared well.

  International shipments to countries other than the United States declined 3.6%, since exports of all commodities, except industrial & consumer products (+3.5%), dropped.

  At the national level, goods exports in February increased 1.4% to over $36.5 billion, thanks to both higher export volumes (+0.5%) and higher prices (+0.9%). Exports of agricultural and fishing products led the gain by increasing 4.8% in February, while most of the principal commodity groupings were up.

  Source: Statistics Canada & BC STATS

- **BC (+10.4%, *unadjusted*) was among the best performers in exports on a year-over-year basis.** Only Saskatchewan (+25.9%) and Alberta (+19.7%) posted higher growth in February. Newfoundland (-29.0%) and Manitoba (-1.4%) were the only provinces that experienced export slowdowns. Nationally, exports were 7.0% higher than the same month of 2004.

  Source: Statistics Canada

- **Shipments by BC manufacturers bounced back (+0.8%, *seasonally adjusted*) in February, after two consecutive monthly declines.** Both durable (+1.0%) and non-durable (+0.5%) goods manufacturers saw increases in the value of shipments, despite weakness in each of BC's top three manufacturing industries. The wood industry, which accounts for 50% of durable goods, and 30% of total shipments, slipped 0.3% in February. Indeed, this industry has been on a downward trend since September 2004 as prices for softwood lumber have dipped, partly due to the appreciation of the Canadian dollar. Paper (-1.4%), the second biggest manufacturing industry, and food (-0.2%), the third biggest, also posted declines in February.

  Except for wood (-0.3%), machinery (-8.4%) and transportation equipment (-9.8%), most manufacturers of durable goods saw shipment growth. Primary metal (+14.1%) had the most notable gain, followed by computer & electronic (+8.7%), miscellaneous (+8.4%) and furniture & related (+4.4%) products.

  Shipments of non-durables rose 0.5%, as chemicals (+9.8%), beverages & tobacco (+6.0%), and plastics & rubber (+3.5%) shipments increased enough to offset the decline in food (-0.2%), paper (-1.4%), and printing & related (-1.0%) products.

  Across the nation, shipments fell 0.5% to $51.4 billion in February due to volatility in the transportation equipment sector. Five out of 12 regions posted declines, including Ontario (-1.2%) and Quebec (-0.4%). In the remaining provinces and territories, Alberta (+1.7%) and British Columbia (+0.8%) made gains, as did three of the four Atlantic provinces.

  Source: Statistics Canada

Report Small business outlook

Did you know...
The first anonymous living donor kidney transplant in Canada was performed in British Columbia in 2004.

- **Investment in non-residential building construction rebounded in the first quarter of 2005, rising 1.6% (*seasonally adjusted*) from the fourth quarter of 2004.** Spending on both industrial (+4.9%) and institutional & government (+5.2%) buildings experienced significant gains, while the commercial sector (-0.5%) continued to edge down.

  Non-residential building construction activity in Vancouver showed the largest increase among the 28 census metropolitan areas across Canada, rising 7.5% to $414 million in the first quarter. However Victoria, where all three non-residential components dropped, experienced the biggest decline of all the CMAs (-33.0% to $44 million).

  Nationally, non-residential construction expenditures rose a moderate 1.3% in the first quarter, with industrial projects leading the growth (+5.2%). All four of the large provinces rebounded (at rates ranging from +0.4% in Ontario to +5.9% in Alberta) from last quarter's declines. *Data Source: Statistics Canada*

Housing

- **The cost of new housing in BC's two largest metropolitan areas continued to rise in February.** In Victoria, new housing prices were 7.7% higher than in February 2004, while homebuilders in the Vancouver area received an average of 3.6% more for their projects. New housing prices in Victoria have been rising rapidly since early 2002, as the cost of both land and buildings has crept up. In recent months, land prices in particular have been exerting inflationary pressure on new housing costs. In Vancouver, the opposite is true: building prices (+4.8%) are rising much faster than is the cost of land (+0.4%).

  Nationally, new housing prices were 5.1% higher in February than in the same month of 2004, as prices increased in every metropolitan area surveyed (ranging from +0.6% in Halifax to +9.5% in Winnipeg). *Data Source: Statistics Canada*

Organ Transplants

- **A total of 1,795 Canadians received solid organ transplants in 2003, 22% more than 1994 (1,473).** An increase in organ recovery from living and deceased donors as well as organs offered by the US organ procurement organization expanded the supply of organs available for transplants.

  The number of living donors not related to the recipient is on the rise. The highest rate of living donations was in Alberta, with 24.7 living donors per million population, while Quebec had the highest deceased donor rate, with 18.0 per million population.

  The number of patients waiting for a transplant increased 2.3% in 2004. There were 4,004 patients waiting for an organ transplant on December 31, 2004. Last year 242 people died while waiting for a transplant.

  Data Source: Canadian Institute for Health Information

The Nation

- **Despite the slack global economy and a series of unpleasant events around the world since 2000, Canadian industries still managed to post a 1.5% annual increase in their labour productivity during the 2000 to 2003 period.** Although the advance is not comparable with the 2.8% annual growth from 1997 to 2000, a period marked by rapid economic expansion, it is on a par with the average productivity gain in the last business cycle (1998-2000).

  Driving the productivity gain was growth in service industries, while manufacturing, agriculture, and mining and oil & gas extraction industries saw productivity slowdowns during the period of 2000 to 2003.

  Data Source: SC Catalogue 15-003

- **The debt-to-income ratio for Canadians rose from 55% in 1982 to 97% in 2001.** When adjusted for inflation, real per-capita debt doubled from $10,300 to $20,900 during this period. On the other hand, the saving rate for Canadians went down from 17% of their personal income in 1982 to a mere 3% in 2001.

  Data Source: SC Catalogue 75-001

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For data originating from Statistics Canada, data sourced to 'Statistics Canada' has been retrieved from CANSIM, the agency's electronic database; otherwise the source is identified as 'SC' plus the catalogue number.

Infoline Report

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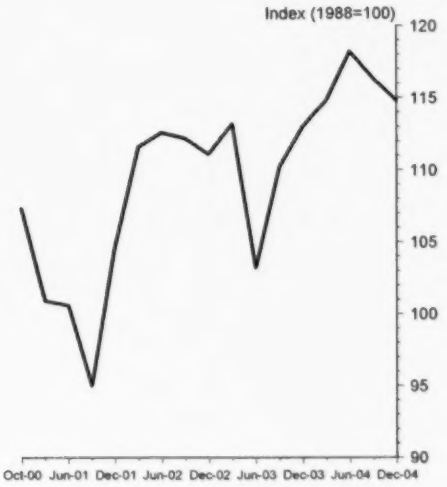
Contact: Dan Schrier (250) 387-0376
Originally published in *Small Business Quarterly*, Issue 04-4. Annual Subscription $30 +GST

Small Business Outlook

On balance, small businesses in British Columbia have a fairly positive outlook for the success of their enterprises in 2005; however, there are areas of concern. According to the Canadian Federation of Independent Business (CFIB) quarterly business barometer, the confidence of BC small and medium enterprises waned slightly in December, although BC business owners are still among the most positive in the country.[1]

The outlook of BC businesses has weakened, but they remain among the most upbeat in the country



Source: Canadian Federation of Independent Business

The level of optimism expressed by businesses depends largely on the type of industry in which they operate. The rapid rise in the value of the Canadian dollar relative to its American counterpart has had a strong influence on the profitability of many enterprises. For some of these, particularly those involved in exporting goods or services to the United States, the effect has been negative, while for others, the higher dollar has had a positive influence. Accordingly, sectors that are identified in the CFIB survey as being the least optimistic include hotels and motels, which are heavily dependent on tourists and therefore are vulnerable to exchange rate effects, while those that are most optimistic include service providers that generally cater to domestic patrons, such as barbershops and beauty salons.

Although BC's economy is largely export-oriented, only a small percentage of BC small businesses are exporters. According to Statistics Canada's *Exporter Registry*, less than two percent of BC small businesses export goods to international destinations. Unfortunately, there is no hard data on what proportion export services, but for those businesses that are mainly involved in retailing or in manufacturing goods for consumption within Canada, the higher dollar may actually be a blessing. The appreciation of the dollar has made it cheaper to import equipment and supplies from the United States, which may reduce the cost of doing business for these enterprises by allowing them to boost productivity through capital improvements or to increase demand for their products through reduced prices.

Expectations of manufacturers

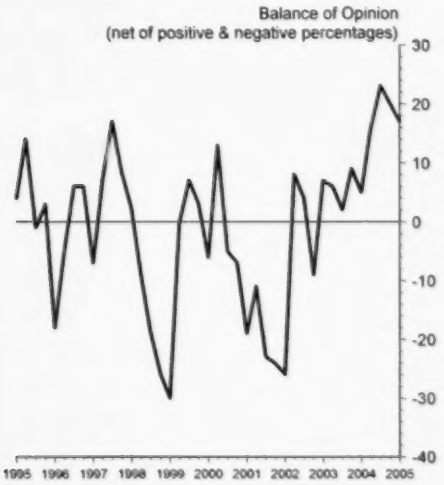
Statistics Canada surveys Canadian manufacturers for their opinions regarding current business conditions at the beginning of every quarter. According to the latest *Business Conditions Survey* done in January, small manufacturers in BC (those with annual shipments of less than $10 million) have fairly good expectations with regard to the level of production they expect to see in the coming months. This is in stark contrast with larger manufacturers, who have flipped their expectations from a more positive outlook for the fourth quarter of 2004,

[1] Mallett, Ted. Quarterly Business Barometer, 2004 No. 4, Canadian Federation of Independent Business (December 2004).

to a very negative expectation for the first quarter of 2005. In other words, a far larger percentage of large producers (27%) had expectations that production volumes would be too low, compared to only 12% that thought volumes would be too high, for a net balance of opinion of -15 (i.e., the percentage point difference in the two extremes). Small manufacturers, on the other hand, had a balance of opinion of +12.

The same was true for the expected number of new orders. While, on balance, small producers expect an increase in new orders (+17), larger manufacturers have gone from positive expectations of +13 for the fourth quarter of 2004 to a slightly negative outlook of -3 for the first quarter of 2005.

The expectation of small BC manufacturers is for an increase in orders for their products



Source: Statistics Canada, *Business Conditions Survey*

Inventory levels are another indication of the split between large and small producers. While, on balance, inventories are just about where they should be for small manufacturers, larger producers tend to have more of a problem with excess inventories.

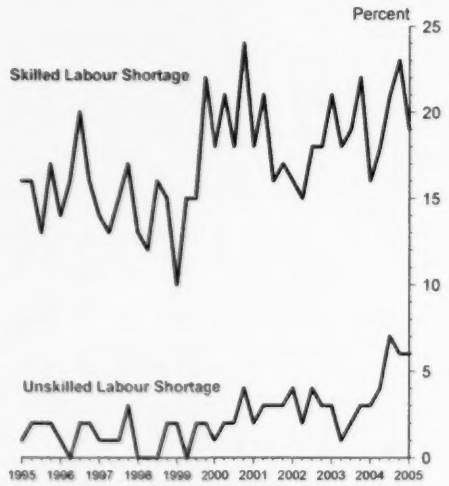
The variation in expectations between large and small producers may be related to the value of the dollar and the likelihood that larger manufacturers are probably more apt to export their goods than are smaller enterprises.

Production difficulties

Both large and small manufacturers report production difficulties to some degree, but this is one area where the smaller producers seem to have more trouble, particularly when it comes to attracting labour. This is especially true of skilled labour, where, on average, about a fifth of small producers report difficulties with shortages. This has been a reasonably consistent problem, but seems to have worsened in the last few years. Shortages of unskilled labour have not usually been a problem, but in the last year more small producers are reporting difficulties in recruiting unskilled workers.

Although larger manufacturers seem to have fewer problems with regard to labour shortages, they have been experiencing increased difficulty in this area in the last couple of years. Skilled labour shortages are far more common now than they were just a few years ago and shortages of unskilled labour have gone from virtually nil to becoming a problem for 4% of large producers.

Small BC manufacturers are reporting increasing difficulty in finding both skilled and unskilled labour



Source: Statistics Canada, *Business Conditions Survey*

Larger manufacturers are also experiencing problems recruiting workers

Source: Statistics Canada, *Business Conditions Survey*

As the leading edge of the baby boom generation starts to retire in large numbers in the next few years, the problem with labour shortages could be exacerbated. These firms will either have to find new ways to attract and retain workers, or improve the productivity of the employees they already have. Perhaps the lower cost of imports resulting from the higher exchange rate will be helpful in this regard, as firms can now buy machinery and equipment from the US at significantly reduced prices compared to just a couple of years ago.

Conclusion

The results of the CFIB survey of its members and Statistics Canada's *Business Conditions Survey* seem to indicate that the majority of small businesses in BC, including small manufacturers, are fairly upbeat about their prospects in the coming months. While production difficulties such as labour shortages are definitely a long-term concern, the outlook seems positive for the short-term, at least. The exception may be for businesses that are affected by the upward movement of the exchange rate, such as tourism-related enterprises and exporters.

Infoline

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BC at a glance . . .

POPULATION (thousands)	Jan 1/05	% change on one year ago
BC	4,220.0	1.1
Canada	32,078.8	0.9
GDP and INCOME		
(BC - at market prices)	2003	% change on one year ago
Gross Domestic Product (GDP) *($ millions)*	145,550	5.2
GDP *($ 1997 millions)*	133,600	2.5
GDP *($ 1997 per Capita)*	32,175	1.6
Personal Disposable Income *($ 1997 per Capita)*	19,758	0.3
TRADE ($ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Feb	3,599	0.8
Merchandise Exports - Feb	2,671	0.7
Retail Sales - Jan	3,987	-0.9
CONSUMER PRICE INDEX		12-month avg
(all items - 1992=100)	Feb '05	% change
BC	123.8	2.1
Canada	125.8	2.0
LABOUR FORCE (thousands)		% change on
(seasonally adjusted)	Mar '05	prev. month
Labour Force - BC	2,248	-0.4
Employed - BC	2,101	0.1
Unemployed - BC	147	-7.0
		Feb '05
Unemployment Rate - BC *(percent)*	6.5	7.0
Unemployment Rate - Canada *(percent)*	6.9	7.0
INTEREST RATES (percent)	April 13/05	April 14/04
Prime Business Rate	4.25	3.75
Conventional Mortgages - 1 year	5.05	4.45
- 5 year	6.25	5.95
US/CANADA EXCHANGE RATE	April 13/05	April 14/04
(avg. noon spot rate) Cdn $	1.2368	1.3440
US $ *(reciprocal of the closing rate)*	0.8074	0.7432
AVERAGE WEEKLY WAGE RATE		% change on
(industrial aggregate - dollars)	Mar '05	one year ago
BC	698.01	3.0
Canada	695.39	2.6

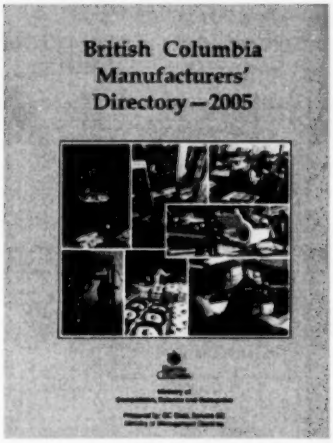
SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada

Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics

For latest Weekly Financial Statistics see www.bankofcanada.ca

2005 Manufacturers' Directory



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